

## K THRU 12 EDUCATION

California's school districts, charter schools and county offices of education provide instruction and a variety of programs and support services for pre-Kindergarten through grade twelve (K-12) students. These programs are designed to prepare students with the skills necessary to pursue higher education, obtain fulfilling employment, achieve career goals and develop as productive citizens. Programs and services provided to more than six million students annually include standards-based instruction, special education, English learner support, career preparatory programs, child care and development, remedial instruction and adult education.

The Budget Act includes \$41.9 billion General Fund in funding for K-12 education and community colleges to fund the minimum Proposition 98 Guarantee in 2008-09. Total Proposition 98 funding for K-14 education programs will increase year over year by \$1.5 billion.

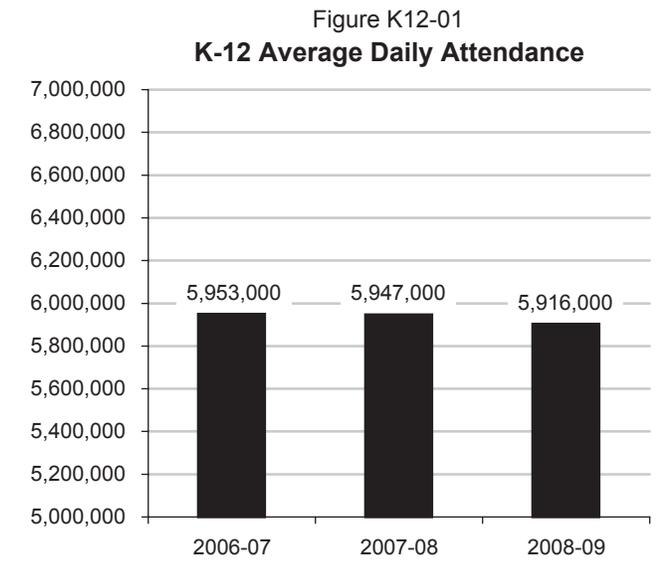
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### **TOTAL K-12 FUNDING**

Total expenditures from all sources for K-12 education programs in 2008-09 are projected to be \$71.9 billion (\$42 billion General Fund). Of this amount, \$68 billion is state, federal and local property tax funding accounted for in the State Budget. Notable funding changes are described below.

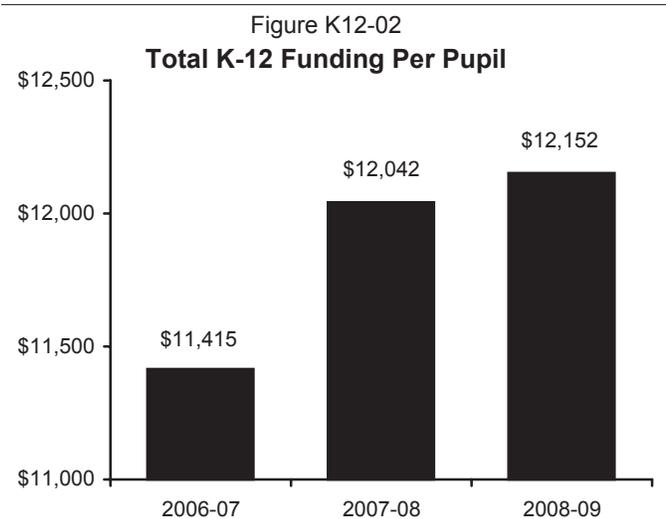
**ATTENDANCE**

As a result of a steady decline in birth rates throughout the 1990s, attendance growth in public schools is declining (see Figure K12-01). For 2007-08, K-12 average daily attendance (ADA) is estimated to be 5,947,000, a decrease of 6,400 from the 2006-07 fiscal year. For 2008-09, K-12 ADA will decrease by an additional 31,000 to 5,916,000.



**PER-PUPIL SPENDING**

Total per-pupil expenditures from all sources are projected to be \$12,042 in 2007-08 and \$12,152 in 2008-09, including funds provided for prior year settle-up obligations (see Figure K12-02). This is an indicator of the relative level of spending in California for support of K-12 education programs and not the actual level of funding allocated to each school for a pupil.



**COST-OF-LIVING ADJUSTMENTS**

The Budget includes \$244.3 million for a 0.68-percent cost-of-living adjustment (COLA) for school apportionments. Of this amount, \$239.8 million is for school district revenue limits and \$4.5 million is for county office of education revenue limits. No COLA is provided for categorical programs.

**PROPOSITION 98 GUARANTEE**

The voter-approved constitutional amendment, Proposition 98, guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went

into effect in the 1988-89 fiscal year, determines funding levels according to a multitude of factors including the level of funding in 1986-87, General Fund revenues, per capita personal income and school attendance growth or decline.

Proposition 98 originally mandated funding at the greater of two calculations or Tests (Test 1 or Test 2). In 1990, Proposition 111 (SCA1) was adopted to allow for a third funding test in low revenue years. As a result, three calculations or tests determine funding for school districts and community colleges (K-14). The calculation or test that is used depends on how the economy and General Fund revenues grow from year to year (See Figure K12-03).

For fiscal year 2006-07, the Proposition 98 Guarantee was \$55.2 billion, of which the General Fund share was \$41.4 billion. Local property taxes covered the balance.

Figure K12-03  
**Proposition 98 Test Calculations**

**Test 1—Percent of General Fund Revenues**

Test 1 is based on a percentage or share of General Fund tax revenues. Historically, school districts and community colleges (K-14) received approximately 40 percent in the 1986-87 fiscal year. As a result of the recent shifts in property taxes to K-14 schools from cities, counties, and special districts, the current rate is approximately 40.6 percent.

**Test 2—Adjustments Based on Statewide Income**

Test 2 is operative in years with normal to strong General Fund revenue growth. This calculation requires that school districts and community colleges receive at least the same amount of combined state aid and local tax dollars as they received in the prior year; adjusted for enrollment growth and growth in per capita personal income.

**Test 3—Adjustment Based on Available Revenues**

Test 3 is utilized in low revenue years when General Fund revenues decline or grow slowly. During such years, the funding guarantee is adjusted according to available resources. A low revenue year is defined as one in which General Fund revenue growth per capita lags behind per capita personal income growth more than one-half percentage point. Test 3 was designed so that education is treated no worse in low revenue years than other segments of the state budget.

In years following a Test 3 funding level, the state is required to provide funding to restore what was not allocated the previous year. This is often referred to as a maintenance factor.

Proposition 98 General Fund appropriations for 2007-08 are now \$41.6 billion. Total Proposition 98 funding for 2007-08 is \$56.6 billion.

The Proposition 98 Guarantee for 2008-09 is projected to grow to \$58.1 billion of which \$41.9 billion would be from the General Fund. With this additional investment, K-12 Proposition 98 per-pupil funding is \$8,784 in 2008-09, up from \$8,509 in 2007-08.

**PROPERTY TAXES**

The Budget reflects \$14.4 billion in school district and county office of education property tax revenues in 2008-09, an increase of \$1.0 billion over 2007-08. In general, increases in local property tax revenues decrease the amount of state General Fund costs for revenue limit apportionments. These estimates include the impact of redevelopment agency (RDA) pass-through provisions enacted with the Budget Act.

A recent report by the State Controller's Office found that RDAs have not been passing through the full amount of property tax increment revenues to local taxing jurisdictions, including local education agencies, required under current law. As a result, legislation is included with the Budget requiring RDAs to report all payments and obligations to local taxing jurisdictions for fiscal years 2003-04 through 2008-09 to the county auditor for verification. RDAs are required to remit any outstanding obligations to local taxing jurisdictions, except that monies owed to schools that offset state costs for apportionments are to be deposited in the county Educational Revenue Augmentation Fund. This transfer is estimated to be \$98 million in 2008-09.

This legislation also requires a one-time shift of \$350 million from RDAs to the county Educational Revenue Augmentation Fund in 2008-09. The shift will generate a commensurate amount of Proposition 98 General Fund savings. Each RDA will shift an amount proportionate to its individual share of statewide RDA tax increment revenues. RDAs with insufficient liquidity to fund the shift may borrow from their low-moderate income housing funds, from their organizing city or county, or from a joint powers agency.

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## **OTHER BUDGET ADJUSTMENTS**

### **CALIFORNIA STATE LOTTERY FUNDING FOR EDUCATION**

Current law requires that at least 34 percent of lottery revenues be allocated to public education programs. Beginning in 2009-10, pending approval by the voters, the allocation of lottery revenues to public education will be replaced with annual appropriations from the General Fund. Each of the entities currently receiving lottery funding will be provided General Fund equal to the amount of lottery revenue it received in 2008-09, adjusted each year by the change in average daily attendance or full time equivalent students, as applicable, and by the change in California per capita personal income. This funding is estimated to be \$1.1 billion in 2009-10. Essentially, a relatively flat funding source for education will be replaced with General Fund appropriations which will grow significantly over time.

Commencing in 2009-10, these General Fund appropriations for school districts, county offices of education, the State Department of Corrections and Rehabilitation, the State Department of Education State Special Schools, the State Department of Developmental Services developmental centers and the State Department of Mental Health state hospitals will be provided in addition to the minimum funding level required by Proposition 98 for K-12 schools and community colleges. The effect of this is to build the Proposition 98 minimum funding level by an estimated \$1.057 billion in 2009-10, which will grow over time based on the Proposition 98 growth factors.

### **LOCAL EDUCATIONAL AGENCY CORRECTIVE ACTION ASSISTANCE**

Consistent with the requirements placed on the state and local educational agencies (LEAs) by the federal No Child Left Behind Act (NCLB), the State Board of Education, in March 2008, approved individually differentiated sanctions and technical assistance for 97 LEAs.

To ensure that this and future cohorts of corrective action LEAs have the financial wherewithal to implement these activities, the Budget includes \$180 million federal Title I Set-Aside funds. LEAs will receive one-time funding to implement a variety of improvements and reforms aimed at improving student achievement. Specifically for this first cohort of LEAs, the budgeted resources will be used to fully implement a new curriculum that is based on state academic content and achievement standards, including providing appropriate professional development based on scientifically-based research for all relevant staff. Also, LEAs will contract with county offices of education, district assistance and intervention teams, or other assistance providers to analyze the fiscal, governance, and academic capacities of LEAs. These experts will make recommendations that should move these LEAs in a positive direction.

The funds provided in the Budget and the additional expertise should lead to better administrative and instructional systems aimed at the most important purpose, improving the educational achievement of California's students.

### **EMERGENCY REPAIR PROGRAM**

The Budget Act provides another \$101 million transfer from the Proposition 98 Reversion Account to the Emergency Repair Account in satisfaction of the *Williams* settlement agreement. This increment of funding for the program will bring total transfers to \$392 million for the purpose of funding school facility emergency repair projects.

### **STUDENT AND TEACHER LONGITUDINAL DATA SYSTEMS**

The Budget Act provides \$25.4 million to support the development of the California Longitudinal Pupil Achievement Data System and related school information services workload. Total funding for these programs since 2006-07, including support for all districts in preparing for the transition to the longitudinal system in the summer of 2010, is \$78.7 million. In addition, the Budget provides \$1.2 million in federal funds to support development of the California Teacher Integrated Data System. The state is currently soliciting bidder proposals for implementation, and plans on initiating development in 2009-10.

### **CHILD CARE**

The Budget Act appropriates more than \$3.3 billion for the various child care programs administered by the State Department of Education, including funding for preschool, general child care centers, family child care homes, CalWORKs child care and before- and after-school programs. Total funding includes \$338.3 million in one-time Proposition 98 resources to fully fund CalWORKs Stage 2 and Stage 3 child care. The Budget Act also includes \$10.9 million for growth for non-CalWORKs child care programs. A total of approximately 915,000 child care slots are funded in the budget.

The Budget Act reflects completion of the policy change initiated in 2007-08 to fully fund Stage 2 costs without a federal Temporary Assistance for Needy Families (TANF) holdback. The Budget provides an additional \$25.5 million in Proposition 98 resources for this purpose.

Finally, the Budget updates the regional market rate ceilings for child care reimbursements for voucher-based programs at the 85<sup>th</sup> percentile of the rates charged to private pay clients for the same type of child care for the same age child in that region based on the 2007 Regional Market Rate (RMR) survey, effective March 1, 2009. This will drive considerably higher costs per case in the future, similar to the rate increases of approximately 12 percent experienced in 2007-08. Additional costs in excess of \$50 million for CalWORKs child care are projected in 2009-10.

### **PROPOSITION 98 SETTLE-UP PAYMENTS**

The 2008-09 Budget defers \$150 million in settle-up payments that have traditionally been appropriated to reduce prior years outstanding K-14 unfunded reimbursable costs for mandated programs.

The Budget includes \$402 million in settle-up funds to continue the Quality Education Investment Act of 2006. Over a seven-year period, nearly \$2.7 billion will be spent in an effort to improve the quality of academic instruction and the learning environment at the lowest-performing schools in the state. These goals are to be achieved through reduced class size and improved teacher quality and training in schools at all grade levels, and improved counselor-to-student ratios in low-performing high schools. The program also creates a process for schools to calculate and report average experience of their teachers.

### **CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM**

The California State Teachers' Retirement System (CalSTRS) administers the Teachers' Retirement Fund, which is an employee benefit trust fund created to administer the

State Teachers' Retirement Plan (Plan). The Plan is a defined benefit pension program that provides retirement, disability, and survivor benefits for teachers and certain other employees of the California public school system. The Plan is comprised of three programs: the Defined Benefit Program, the Defined Benefit Supplement Program and the Cash Balance Benefit Program. Within the Defined Benefit Program there is also a Supplemental Benefit Maintenance Account (SBMA), which provides annual supplemental payments in quarterly installments to retired teachers whose purchasing power has fallen below 80 percent of the purchasing power of an initial allowance.

Currently the state makes annual General Fund contributions to the SBMA of 2.5 percent of teacher payroll for purchasing power protection. However, the 80 percent level of supplemental payments is not a vested benefit. This means that if the amount in the SBMA was not sufficient to bring purchasing power up to the 80 percent level, supplemental payments may have to be suspended or paid at a lower level. An actuarial analysis performed in 2005 at the direction of the Department of Finance shows that the SBMA is being overfunded and has more than enough funds to provide the purchasing power protection for current and future retired teachers. The Legislature adopted a comprehensive package to provide General Fund savings while enhancing benefits for retired teachers. This comprehensive package provides:

- An increase up to 85 percent non-vested purchasing power protection. The CalSTRS Board is allowed to set SBMA benefits between those necessary to preserve 80 to 85 percent of retirees' purchasing power pursuant to CalSTRS regulations, subject to the availability of the 80 percent level.
- An annual General Fund contribution to the SBMA of 2.5 percent of teacher payroll less \$66.4 million in fiscal year 2008-09, \$70 million in 2009-10, \$71 million in 2010-11 and \$72 million thereafter.
- A change from a single July 1 payment to a 50/50 split over two payments to be made on November 1 and April 1 of each year.
- Payments of \$56,979,949 for four fiscal years beginning in 2009-10 to pay for interest accrued from the CalSTRS lawsuit.
- An extended payroll reporting period to October 25 with the ability to amend the report until April 15 of each year.
- An additional appropriation of up to \$3 million in 2009-10 to account for prior payroll reporting errors.

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